

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 NEA-10 EB-08 ISO-00 TRSE-00 CIAE-00
INR-10 NSAE-00 L-03 STR-07 OES-09 DOTE-00 CPR-03
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R 280913Z JUL 78
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC 4863
USDOC WASHDC
INFO AMEMBASSY VIENNA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY HELSINKI
AMEMBASSY STOCKHOLM
AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS
AMCONSUL AMSTERDAM
AMEMBASSY BERN
AMEMBASSY ROME
AMEMBASSY LISBON
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
AMEMBASSY ATHENS
AMEMBASSY ANKARA
AMEMBASSY TEHRAN

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DEPARTMENT PASS STATE EUR/SOV FOR J. GOLBERT

TREASURY/OIA FOR M. FIELD

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COMMERCE/BEWT FOR D. STEIN

E.O. 11652:N/A

TAGS:EFIN, ECON, UR, US, XT, JA, IR, IT

SUBJECT: NEW SOVIET TAX DECREE

REF: A.STATE 176137, B. STATE 176138, C. MOSCOW 13653

(NOTAL), D. MOSCOW A-149 (NOTAL)

SUMMARY. MEETING WITH BRITISH EMBASSY OFFICERS JULY 7
DEPUTY MINISTER OF FINANCE MASLENNIKOV, STATING THAT
SOVIETS HAD BROACHED IDEA OF DOUBLE TAXATION AGREEMENT TO
UK TAX OFFICIALS LAST FALL, HELD UP US-SOVIET TAX CONVEN-
TION AS MODEL FOR DOUBLE-TAXATION AGREEMENTS. MASLENNIKOV
WHILE PROVIDING ADDITIONAL DETAILS ON THE PROCEDURE TO BE
USED IN DETERMINING TAX RATE AND THE COSTS WHICH
WILL BE EXCLUDABLE FROM INCOME LIABLE TO TAX, REJECTED
BRITISH SUGGESTIONS THAT STATUS OF UK REPRESENTATION STAFF
PARALLELS THAT OF THE NON-TAXABLE SOVIET UK COMMERCIAL
MISSION STAFF AND THAT UK FIRMS SALES REVENUES TO FTO'S
SHOULD NOT BE TAXED, SINCE CONTRACTS ARE WRITTEN ON AN
F.O.B. BASIS AND THEREFORE REVENUES DO NOT FALL WITHIN
SOVIET TAX DECREE'S CATEGORY OF "ACTIVITIES ON THE TER-
RITORY OF THE USSR". INFORMATION OBTAINED FROM OTHER
EMBASSIES IN MOSCOW PARALLELS THAT PROVIDED IN CAPITALS,
WITH THE EXCEPTIONS OF IRAN, NORWAY, SWEDEN, AND SPAIN.
A SENIOR ARTHUR ANDERSEN AND CO. BRITISH BASED TAX EXPERT
WILL BE IN MOSCOW WEEK OF AUGUST 7 IN HOPE OF MEETING
WITH MINISTRY OF FINANCE OFFICIALS. END SUMMARY

1. BRITISH COMMERCIAL OFFICER JULY 25 GAVE EMBOFF READOUT
ON BRITISH EMBASSY MEETING WITH DEPUTY MINISTER OF FINANCE
MASLENNIKOV JULY 7. MASLENNIKOV PROVIDED DESCRIPTION OF
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THE PROCEDURES WHICH WILL BE USED TO DETERMINE RATE OF
TAX FOR FOREIGNERS. IN COMING MONTHS THE MINISTRY OF
FINANCE WILL SEND QUESTIONNAIRES TO ALL SOVIET ORGANIZA-
TIONS AND CITIZENS IN FOREIGN COUNTRIES, ASKING HOW FIRMS
AND CITIZENS ARE TAXED. RESULTS OF POLL FOR EACH COUNTRY
WILL BE USED TO DETERMINE TAX FOR CITIZENS AND FIRMS OF
RESPECTIVE COUNTRIES. (MINISTRY OF FINANCE THEREFORE MAY
HAVE DIFFICULTY DETERMINING TAX RATE AND WHO PAYS BY
DEADLINE OF FIRST TAX PAYMENT, DUE FEBRUARY 1, 1979.)
IN TERMS OF THE COSTS EXCLUDABLE FROM "INCOME"
(ARTICLE 3, SEE REF D) MASLENNIKOV SAID THAT "COSTS"
INCLUDE PRODUCTION, TRANSPORTATION, ADMINISTRATIVE, ADVER-
TISING, AND SIMILAR COSTS. MASLENNIKOV ALSO HELD UP
US-SOVIET TAX CONVENTION AS MODEL OF THE SORT OF DOUBLE
TAXATION AGREEMENT SOVIETS WANT, AND STATES THAT MINISTRY
OF FINANCE HAD SUGGESTED TO UK TAX OFFICIALS LAST FALL
THAT SOVIETS AND UK NEGOTIATE A DOUBLE TAXATION AGREEMENT.
MASLENNIKOV WOULD NOT COMMIT HIMSELF TO EQUATING NON-
TAXABLE STATUS OF SOVIET COMMERCIAL MISSION PERSONNEL IN
UK WITH STATUS OF PERSONNEL OF UK FIRMS WITH REPRESENTA-
TIONS IN SOVIET UNION (AND FURTHERMORE STATED THAT FIRMS
WOULD BE LIABLE TO TAX WHETHER OR NOT THEY HAD REPRESENTA-

TATIONS IN THE SOVIET UNION). FINALLY, MASLENNIKOV DID NOT ACCEPT BRITISH ARGUMENT THAT REVENUES OF BRITISH FIRMS FROM SALES TO FTO'S SHOULD NOT BE TAXED, SINCE ALL SUCH SALES ARE ON AN FOB BASIS, AND THEREFORE REVENUES DO NOT DERIVE FROM "ACTIVITIES ON THE TERRITORY OF THE USSR" (ARTICLES ONE AND 11D, REF D).

2. IN GENERAL THE INFORMATION WE HAVE OBTAINED FROM OTHER EMBASSIES IN MOSCOW PARALLELS THAT PROVIDED IN CAPITALS. VARIATIONS AND NEW INFORMATION ARE AS FOLLOWS:

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INFO OCT-01 EA-10 NEA-10 ISO-00 TRSE-00 CIAE-00 INR-10
NSAE-00 L-03 STR-07 DOTE-00 OES-09 CPR-03 CA-01
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FM AMEMBASSY MOSCOW
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COMMERCE/BEWT FOR D. STEIN

IRAN: AGREEMENT OF 1971 COVERING CREWS, PERSONNEL,
REVENUES OF NATIONAL AIRLINES.

NORWAY: IN PROCESS OF NEGOTIATING A DOUBLE TAXATION AGREE-
MENT, WITH SECOND ROUND OF TALKS SCHEDULED
FOR THE FALL
IN OSLO.

SWEDEN: SINCE ANNOUNCEMENT OF THE NEW SOVIET TAX DECREE,
THE GOS HAS ASKED FOR NEGOTIATIONS ON A DOUBLE TAXATION
AGREEMENT.

SPAIN: CONVENTION HAS NOT YET BEEN FULLY NEGOTIATED AND
HAS NOT YET BEENHPIGNED.

(APPROPRIATE PORTUGUESE, GREEK, AND LUXEMBOURG EMBASSY
OFFICERS ARE ON VACATION AND THESE EMBASSIES COULD NOT
PROVIDE DEFINITIVE ANSWER.)

3. JAPANESE AND ITALIAN EMBASSY OFFICERS TOLD EMBOFF THAT
THEIR GOVERNMENTS FEEL NO NEED TO NEGOTIATE DOUBLE TAXA-
TION AGREEMENTS WITH THE SOVIET UNION, SINCE THEY DO NOT
TAX SOVIET CITIZENS AND FIRMS IN THEIR COUNTRIES
AND THEREFORE, BASED ON ARTICLE 7 OF THE TAX DECREE--
RECIPROCITY (REF D)--DO NOT BELIEVE THAT SOVIETS WILL TAX
THEIR CITIZENS AND FIRMS. TURKISH EMBASSY OFFICER STATED
THAT BARTER BASIS OF MOST TRADE BETWEEN USSR AND TURKEY
MADE DOUBLE TAXATION AGREEMENT SUPERFLUOUS.

4. UK ACCOUNTING FIRM ARTHUR ANDERSEN AND CO., WITH
OFFICES IN MOSCOW, WILL BE SENDING UK-BASED SENIOR TAX
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EXPERT TO MOSCOW WEEK OF AUGUST 7 IN HOPE OF MEETING WITH
MINISTRY OF FINANCE OFFICIALS ON TAX DECREE. TOON

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